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9	Chm/NIC				
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14	D/PAO				
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16	NIO/ECON		X		
17	D/OGI		X		
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Remarks

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Executive Secretary

20 Aug 85

Date

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Executive Registry
85-2780/1

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 8/19/85 **Number:** -------------- **Due By:**

Subject: Economic Policy Council Minutes - July 23, 1985

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☐	☑
State	☐	☑
Treasury	☐	☑
Defense	☐	☐
Justice	☐	☑
Interior	☐	☐
Agriculture	☐	☑
Commerce	☐	☑
Labor	☐	☑
HHS	☐	☐
HUD	☐	☑
Transportation	☐	☑
Energy	☐	☑
Chief of Staff	☐	☑
Education	☐	☐
~~OMB~~	☐	☑
CIA	☐	☑
UN	☐	☐
USTR	☐	☑
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☐	☑
CEQ	☐	☐
OSTP	☐	☐
McFarlane	☐	☑
Svahn	☐	☑
Chew *(For WH Staffing)*	☑	☐
Hicks	☐	☑
Executive Secretary for:		
DPC	☐	☑
EPC	☐	☑

REMARKS:

Attached for your information are the minutes of the July 23 meeting of the Economic Policy Council.

RETURN TO:

☑ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Rick Davis
☐ Ed Stucky

Associate Director
Office of Cabinet Affairs

MINUTES
ECONOMIC POLICY COUNCIL

July 23, 1985
11:30 a.m.
Roosevelt Room

Attendees: Messrs. Baker, Block, Baldrige, Brock, Yeutter, Sprinkel, Whitehead, Darman, Verstandig, Boggs, Friedersdorf, Kingon, McFarlane, Rollins, Svahn, Porter, Brashear, Khedouri, Li, Low, Oglesby, Robinson, Smart, Smith, and Stucky, Ms. Chavez and Ms. Eickhoff.

1. Section 201 Nonrubber Footwear Case

Ambassador Yeutter presented the background of the Section 201 footwear case and the range of viable options. The footwear industry has filed a number of petitions since the Trade Act of 1974. President Carter granted the industry relief in the form of Orderly Marketing Agreements (OMAs) with South Korea and Taiwan that were in effect from 1977 to 1981. In 1981, President Reagan allowed the OMAs to expire.

After the U.S. International Trade Commission (ITC) in 1984 made a negative injury finding in a petition filed by the industry, the Congress amended the Section 201 criteria. After the industry again filed a Section 201 petition earlier this year, the ITC made an affirmative injury finding and recommended to the President that he impose global quotas for five years.

The import penetration ratio in the footwear market has climbed significantly. In 1976, it was about 47 percent, and rose to 58 percent in 1982, 64 percent in 1983, 71 percent in 1984, and a 77 percent annual rate so far in 1985. Domestic consumption was about 1 billion pairs last year, of which about 700 million was imported.

Roughly ten states account for the bulk of footwear production. About 27,000 workers are unemployed in the footwear industry, which is experiencing approximately a 17 percent unemployment rate. Labor costs have risen recently, exacerbating the already large differences in wages between U.S. and foreign producers.

Capital expenditures increased during the period of OMAs and declined after 1982. It is difficult, though, to determine whether other factors were more important in explaining this pattern of investment, for example, the effect of the 1981-1982 recession on capital investment.

The domestic industry has a relatively small number of firms. There are about 250 firms with 10 or more employees, of which about 20 key firms account for roughly half of production. About one-third of all the firms are highly competitive. This segment of the industry could survive without import relief in large part because it has already carved out market niches.

Given the injury finding by the ITC, the President must provide relief to the domestic footwear industry unless he determines it is not in the national economic interest. The President is required to consider nine statutory criteria, of which the five most important are:

1. Whether import relief would promote adjustment in the domestic industry;

2. The effect of relief on consumers;

3. The economic and social costs to taxpayers, communities, and workers if relief were or were not granted;

4. The effect of relief on the international economic interests of the U.S.; and

5. The effect of relief on the U.S. trading relationship with other countries, primarily through compensation and retaliation.

Ambassador Yeutter presented four options. The first option would provide for no relief other than adjustment assistance. It would impose no consumer costs and not hurt our trading partners.

The second option would accept the ITC remedy recommendation of reducing imports from roughly 71 percent to 61 percent of consumption. The domestic industry prefers quotas that are more restrictive than the ITC recommendation. The ITC recommendation includes an exclusion of imports at $2.50 customs value or less.

This option would result in some adjustment by the domestic industry and impose high consumer costs. The Administration opposes quotas in principle and would also not collect any revenues from a quota without an auction system for import licenses.

Under the third option, import relief would be provided by raising tariffs from the current average level of about 9 percent to 12-25 percent over the five-year relief period. It would exclude imports at $4.00 customs value or lower. Import penetration would decline initially to 62 percent and end at around 71 percent.

The effect of a tariff on import penetration would be less certain than under a quota. The third option would generate the highest revenues for the Federal Government of any option, about $200-214 million annually, and produce the largest employment increase, an estimated 25,000 jobs.

The fourth option is the most liberal tariff option. Import penetration would decline initially to 65 percent and end at around 71 percent. It would exclude imports at $4.00 customs value or lower.

Ambassador Yeutter expressed his belief that foreign producers would generally absorb the tariff so that the import penetration level would probably be higher. There would be less adjustment by the domestic industry and consumer costs would be significantly less than those in Option 2. Our trading partners would almost certainly prefer this option to the other two relief options and Ambassador Yeutter expressed his view that our trading partners would likely not seek compensation if Option 4 were approved.

Ambassador Yeutter noted that the footwear import relief case has attracted a great deal of interest in the Congress. Senator Packwood and more than a dozen other Senators are sending a letter opposing relief, while Senator Danforth is sending a letter with 36 signatures supporting relief.

The Council's discussion of the economic factors in the footwear case focused on the diversification and structure of the domestic industry, the likely impact of relief on foreign producers, and the extent to which foreign producers would absorb a tariff.

Many major domestic producers have become significant importers as well. Council members generally agreed that failing to provide relief would not adversely affect national security.

Council members discussed the likely impact of relief on the major exporters of footwear to the U.S.: Taiwan, South Korea, Brazil, Italy, and Spain. Footwear exports account for about 12 percent of Brazil's export earnings. Given the recent political transition in Brazil and its debt service requirements, the decision will have a major import on Brazil. Council members noted that a low cost exclusion of imports would have little effect on Brazil.

Several Council members questioned the extent to which foreign producers would absorb a tariff and the impact that absorbing the tariff would have on import penetration levels throughout the period of relief.

The Council agreed that there was no compelling economic case for granting relief.

The Council also discussed two major political risks if relief is not provided to the domestic footwear industry:

1. The Congress may seek legislation reducing or eliminating presidential discretion in Section 201 cases; and

2. Support for legislation protecting other domestic industries may increase.

Some members of Congress have indicated they would view refusal by the President to provide relief to the footwear industry as justification for removing or significantly reducing presidential discretion in Section 201 cases.

The Council discussed the probability that the Administration could successfully oppose legislation eliminating presidential discretion in Section 201 cases.

If the President rejects the footwear petition, support for protectionist legislation for the domestic textile and lumber industries may increase. The Council noted that while providing relief to the footwear industry could reduce the pressures for relief to other domestic industries, it could also encourage other industries to press harder for relief using the rationale that they deserve relief as much as the footwear industry.

The Council discussed the relationship between congressional support for footwear and textile import restrictions and whether rejecting relief for the footwear petition would increase the number of congressmen supporting textile quota legislation or simply increase the intensity of concern by congressmen already supporting textile quota legislation.

Some Council members suggested that the political costs of rejecting the footwear petition could be minimized if addressed within the context of the Administration rearticulating its overall trade policy.

The Council also discussed the impact that providing relief to the domestic footwear industry would have on the Administration's efforts to roll back protectionism abroad. Some noted that providing relief would undercut our efforts to encourage other countries to support a new multilateral trade round.

Secretary Baker requested that Mr. Friedersdorf conduct a detailed analysis of the congressional support for footwear and textile import legislation. The Council agreed that Mr. Friedersdorf and Mr. Oglesby would serve as the Administration's communication channel to the members of Congress on this issue.

The Council agreed to consider this agenda item at a future meeting.